

LESLIE COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2013

LESLIE COUNTY SCHOOL DISTRICT

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LESLIE COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits
Members of Leslie County Board of Education
Hyden, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Leslie County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Appendices to the Independent Auditor's Contract. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Leslie County School District, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note T to the financial statements, during the year ended June 30, 2013, the District adopted the provisions of Governmental Accounting Standards Board Statements No. 60, Accounting and Financial Reporting Service Concession Arrangements, No. 61, The Financial Reporting Entity, No. 62, Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements, and No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-9 and 44-45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Leslie County School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2013, on our consideration of the Leslie County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Leslie County School District's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 13, 2013

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2013

As management of the Leslie County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including activity funds, for the District was \$1,958,228 for which \$1,099,981 was considered Construction Fund cash. The ending cash balance, including activity funds, for the District was \$2,504,013. The balance at June 30, 2013 includes \$1,916,620 considered Construction Fund cash. The June 30, 2013 cash balance reflects a \$911,076 deficit cash balance in Fund 2, Special Revenue Fund, and a corresponding \$1,238,838 receivable balance.
- Total federal expenditures for year ended June 30, 2013 was \$3,330,898 and for June 30, 2012 was \$3,686,067.
- Interest revenue totaled \$41,107 for the current year ended and for the prior year the total interest revenue was \$55,418.
- The District's total long-term debt activity reflects new financing for classroom and office additions at Stinnett Elementary and Mountain View Elementary schools. The total bond issue was \$1,830,000.
- The District's long-term debt reductions were \$1,220,884 for the fiscal year end.
- Fiscal year end construction expenditures for the year ended June 30, 2013 were \$9,468,177 including renovation and additions at WB Muncy and Hayes Lewis Elementary School and construction of a new bus garage.
- Total 2013 general fund revenue was \$10,533,365 exclusive of on behalf state payments totaling \$2,872,491 consisting primarily of state program (SEEK), property, utilities and motor vehicle taxes. Excluding on behalf payments, there was \$11,801,561 in general fund expenditures. For 2012, excluding on-behalf payments of \$3,038,110, total general fund revenue was \$11,446,263 and total general fund expenditures were \$11,148,339.

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2013

OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds include activity funds. Proprietary funds include the school food service, daycare and preschool funds. All other activities are reported under governmental funds.

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2013

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2013, assets exceeded liabilities by \$12,811,124.

The greatest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and ongoing construction projects, where applicable), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net position for the year ended June 30, 2013

Following are comparisons of governmental net position:

	At June 30,	
	<u>2013</u>	<u>2012</u>
Current Assets	4,745,265	12,035,550
Noncurrent Assets	<u>37,475,337</u>	<u>29,037,864</u>
<u>Total Assets</u>	<u>42,220,602</u>	<u>41,073,414</u>
Current Liabilities	4,020,695	2,535,609
Noncurrent Liabilities	<u>25,388,783</u>	<u>24,896,825</u>
<u>Total Liabilities</u>	<u>29,409,478</u>	<u>27,432,434</u>
- Net Position -		
Investment in Capital Assets (net of debt)	10,018,897	10,981,402
Restricted	1,889,821	334,235
Unreserved Fund Balance	<u>902,406</u>	<u>2,325,396</u>
<u>Total Net Position</u>	<u>12,811,124</u>	<u>13,641,033</u>
<u>Total Liabilities and Net Position</u>	<u>42,220,602</u>	<u>41,073,467</u>

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2013

The comparison reflects the following:

- The decrease in current assets is primarily a result of using short term investments for capital construction expenditures.
- Non-current assets increase reflects the completion and transfer of District construction in progress.
- Increases in current liabilities include the increase in the District's short-term principal debt requirements and reflection of an increase in a cash deficit account in its Special Revenue Fund,
- Long-term liability increases is the net effect of a new \$1,830,000 principal issue and current year principal reduction.
- Restricted assets reflect increases in reserves for construction projects.

Comments on budget comparisons

The following table presents a comparison of budget to actual for the general fund:

	<u>Final</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
From local sources			
Taxes	3,323,824	3,206,599	(117,225)
Earnings on investments	30,000	38,059	8,059
Other local revenue	15,196	14,000	(1,196)
Intergovernmental - state	7,245,259	10,121,013	2,875,754
Intergovernmental - indirect federal	15,000	26,185	11,185
<u>Total revenues</u>	<u>10,629,279</u>	<u>13,405,856</u>	<u>2,776,577</u>
Expenditures:			
Instructional	5,598,800	7,454,981	(1,856,181)
Student support services	627,834	830,136	(202,302)
Staff support services	622,977	625,525	(2,548)
District administration	469,061	511,532	(42,471)
School administration	827,681	1,053,397	(225,716)
Business support	333,154	424,887	(91,733)
Plant operation and management	1,469,827	2,021,496	(551,669)
Student transportation	1,460,394	1,533,926	(73,532)
Community service activities	5,000	779	4,221
Employee benefits	36,166	37,783	(1,617)
Debt service	182,467	179,610	2,857
Contingency	673,493	-	673,493
<u>Total expenditures</u>	<u>12,306,854</u>	<u>14,674,052</u>	<u>(2,367,198)</u>
Excess (deficit) of revenue <u>over expenditures</u>	<u>(1,677,575)</u>	<u>(1,268,196)</u>	<u>409,379</u>

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2013

- Actual revenues and expenditures reflect unbudgeted state on-behalf payments for retirement, health and life insurance and technical education in the amount of \$2,872,491.
- Actual local property tax revenues are \$1,259,556 less than budgeted revenues. However, the District received \$1,276,088 in non-budgeted unmined mineral tax revenue.

The following table presents a summary comparison of statement of activities for the fiscal years ended June 30, 2013 and 2012:

	At June 30,	
	<u>2013</u>	<u>2012</u>
Revenues:		
Local revenue sources	4,461,461	4,653,376
State revenue sources	12,323,461	13,152,069
Federal revenue	<u>3,545,232</u>	<u>3,888,492</u>
<u>Total revenues</u>	<u>20,330,154</u>	<u>21,693,937</u>
Expenses:		
Instruction	10,317,801	10,515,538
Student support services	1,017,947	1,066,793
Instructional support	937,284	926,847
District administration	512,728	464,566
School administration	1,053,397	1,089,656
Business support	467,124	480,746
Plant operation and management	2,688,868	2,541,688
Student transportation	1,756,190	1,795,470
Community support & other	248,648	224,717
Food service operations	1,308,275	1,300,937
Interest on long-term debt	<u>813,763</u>	<u>584,050</u>
<u>Total expenses</u>	<u>21,122,025</u>	<u>20,991,008</u>
<u>Change in net position</u>	<u>(791,871)</u>	<u>702,929</u>

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2013

- Local property tax revenues for the prior year ended exceeded current year general fund property tax revenues by \$322,694.
- Depreciation expense was \$820,868 for the current year.
- Interest expense increases reflect additional debt service committed in 2011-12 and 2012-13 for various District projects.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$673,493 in contingency (5.47%).

Results of the current fiscal year and recent historical trends for the District were taken into account when preparing the subsequent year budget. No significant changes in revenue or expense items are foreseeable. The District's tax rates and tax base remain effectively the same except for real estate and tangible property tax increase from .543 per \$100 to .474 per \$100. The District has assessed and considered underlying economical and funding factors at the federal, state, and local level and other non-financial areas including demographics, local economy and risk of loss of student population that may have a significant impact on the financial statements when preparing subsequent years budgets.

Questions regarding this report should be directed to the Superintendent or the Finance Officer at (606) 672-2397.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSTIONAt June 30, 2013

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
- Current Assets -			
Cash and cash equivalents	3,260,495	65,438	3,325,933
Accounts receivable:			
Taxes - current	22,988	-	22,988
Taxes - delinquent	6,163	-	6,163
Other	118,483	-	118,483
Intergovernmental - Indirect Federal	1,238,838	3,603	1,242,441
Inventories	-	29,257	29,257
<u>Total current assets</u>	<u>4,646,967</u>	<u>98,298</u>	<u>4,745,265</u>
- Noncurrent Assets -			
Bond issuance costs and discounts - net	218,214	-	218,214
Capital assets	47,193,586	2,458,793	49,652,379
Less: accumulated depreciation	(11,564,352)	(830,904)	(12,395,256)
<u>Total noncurrent assets</u>	<u>35,847,448</u>	<u>1,627,889</u>	<u>37,475,337</u>
<u>Total assets</u>	<u>40,494,415</u>	<u>1,726,187</u>	<u>42,220,602</u>
Liabilities:			
- Current liabilities -			
Cash deficit	911,076	-	911,076
Accounts payable	764,213	1,525	765,738
Deferred revenue	276,224	-	276,224
Current portion of bond/lease obligations	1,342,119	-	1,342,119
Interest payable	725,538	-	725,538
<u>Total current liabilities</u>	<u>4,019,170</u>	<u>1,525</u>	<u>4,020,695</u>
- Noncurrent liabilities -			
Noncurrent portion of bond/lease obligations	25,388,783	-	25,388,783
<u>Total liabilities</u>	<u>29,407,953</u>	<u>1,525</u>	<u>29,409,478</u>
Net position:			
Invested in capital assets, net of related debt	8,391,008	1,627,889	10,018,897
Restricted for:			
Sick leave	75,696	-	75,696
Other	1,717,352	96,773	1,814,125
Unrestricted	902,406	-	902,406
<u>Total net position</u>	<u>11,086,462</u>	<u>1,724,662</u>	<u>12,811,124</u>
<u>Total liabilities and net position</u>	<u>40,494,415</u>	<u>1,726,187</u>	<u>42,220,602</u>

See notes to financial statements.

11.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2013

		Program Revenues		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
	<u>Expenses</u>			
FUNCTIONS/PROGRAMS:				
- Governmental Activities -				
Instructional	10,317,801	-	(4,405,732)	-
Support services:				
Student	1,017,947	-	(499,221)	-
Instructional staff	937,284	-	(427,919)	-
District administration	512,728	-	(22,949)	-
School administration	1,053,397	-	(245,094)	-
Business support	467,124	-	(110,109)	-
Plant operation and maintenance	2,688,868	-	(121,782)	-
Student transportation	1,756,190	-	(326,340)	-
Community services operations	210,865	-	(210,086)	-
Employee benefits	37,783	-	-	-
Interest on long-term debt	813,763	-	-	-
<u>Total governmental activities</u>	<u>19,813,750</u>	<u>-</u>	<u>(6,369,232)</u>	<u>-</u>
- Business-type Activities -				
Food service	1,308,275	(183,538)	(965,718)	-
<u>Total business-type activities</u>	<u>1,308,275</u>	<u>(183,538)</u>	<u>(965,718)</u>	<u>-</u>
<u>Total primary government</u>	<u>21,122,025</u>	<u>(183,538)</u>	<u>(7,334,950)</u>	<u>-</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES (continued)
For the Year Ended June 30, 2013

	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business- Type Activities	Total
	(5,912,069)	-	(5,912,069)
	(518,726)	-	(518,726)
	(509,365)	-	(509,365)
	(489,779)	-	(489,779)
	(808,303)	-	(808,303)
	(357,015)	-	(357,015)
	(2,567,086)	-	(2,567,086)
	(1,429,850)	-	(1,429,850)
	(779)	-	(779)
	(37,783)	-	(37,783)
	(813,763)	-	(813,763)
	<u>(13,444,518)</u>	<u>-</u>	<u>(13,444,518)</u>
	<u>-</u>	<u>(159,019)</u>	<u>(159,019)</u>
	<u>-</u>	<u>(159,019)</u>	<u>(159,019)</u>
	<u>(13,444,518)</u>	<u>(159,019)</u>	<u>(13,603,537)</u>
General revenues:			
Taxes	3,904,759	-	3,904,759
Investment earnings	38,059	3,048	41,107
State and formula grants	8,533,743	-	8,533,743
Miscellaneous	332,057	-	332,057
<u>Total general revenues</u>	<u>12,808,618</u>	<u>3,048</u>	<u>12,811,666</u>
Change in net position	(635,900)	(155,971)	(791,871)
Net position - beginning (restated)	<u>11,722,362</u>	<u>1,880,633</u>	<u>13,602,995</u>
Net position - ending	<u><u>11,086,462</u></u>	<u><u>1,724,662</u></u>	<u><u>12,811,124</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS

At June 30, 2013

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>Other Gov't Funds</u>	<u>Total Gov't Funds</u>
Assets and resources:					
Cash and cash equivalents	1,343,875	-	1,916,620	-	3,260,495
Accounts receivable:					
Taxes - current	22,988	-	-	-	22,988
Taxes - delinquent	6,163	-	-	-	6,163
Other	118,483	-	-	-	118,483
Intergovernmental - Indirect Federal	-	1,238,838	-	-	1,238,838
<u>Total assets and resources</u>	<u>1,491,509</u>	<u>1,238,838</u>	<u>1,916,620</u>	<u>-</u>	<u>4,646,967</u>
Liabilities and fund balances:					
Cash deficit	-	911,076	-	-	911,076
Accounts payable	506,490	46,008	211,715	-	764,213
Deferred revenue	-	276,224	-	-	276,224
<u>Total liabilities</u>	<u>506,490</u>	<u>1,233,308</u>	<u>211,715</u>	<u>-</u>	<u>1,951,513</u>
Fund balance					
Restricted - sick	75,696	-	-	-	75,696
Restricted - other	-	5,530	1,704,905	-	1,710,435
Assigned fund balance	6,917	-	-	-	6,917
Unassigned fund balance	902,406	-	-	-	902,406
<u>Total fund balances</u>	<u>985,019</u>	<u>5,530</u>	<u>1,704,905</u>	<u>-</u>	<u>2,695,454</u>
<u>Total liabilities and fund balances</u>	<u>1,491,509</u>	<u>1,238,838</u>	<u>1,916,620</u>	<u>-</u>	<u>4,646,967</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTRECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITIONAt June 30, 2013

Total fund balance per fund financial statements	2,695,454
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but are reported in the statement of net position.	35,847,448
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Certain liabilities (such as bonds payable, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but are presented in the statement of net position.	<u>(27,456,440)</u>
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Net position for governmental activities	<u><u>11,086,462</u></u>
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See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDSFor the Year Ended June 30, 2013

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>Other Gov't Funds</u>	<u>Total Gov't Funds</u>
Revenues:					
From local sources:					
Taxes	3,206,599	-	-	698,160	3,904,759
Earnings on investments	38,059	-	-	-	38,059
Other local revenue	14,000	500	15,302	-	29,802
Intergovernmental - state	10,121,013	692,119	-	1,291,223	12,104,355
Intergovernmental - indirect federal	26,185	2,772,435	-	-	2,798,620
<u>Total revenues</u>	<u>13,405,856</u>	<u>3,465,054</u>	<u>15,302</u>	<u>1,989,383</u>	<u>18,875,595</u>
Expenditures:					
Instructional	7,454,981	2,669,749	-	-	10,124,730
Student support services	830,136	187,811	-	-	1,017,947
Staff support services	625,525	311,643	-	-	937,168
District administration	511,532	-	-	-	511,532
School administration	1,053,397	-	-	-	1,053,397
Business support	424,887	34,011	-	-	458,898
Plant operations and maintenance	2,021,496	19,050	-	-	2,040,546
Student transportation	1,533,926	64,391	-	-	1,598,317
Community service activities	779	210,086	-	-	210,865
Employee benefits	37,783	-	-	-	37,783
New building construction	-	-	9,468,177	-	9,468,177
Debt service:					
Principal	161,752	-	-	1,059,132	1,220,884
Interest	17,858	-	-	771,234	789,092
<u>Total expenditures</u>	<u>14,674,052</u>	<u>3,496,741</u>	<u>9,468,177</u>	<u>1,830,366</u>	<u>29,469,336</u>
Excess (deficit) of revenues over expenditures	<u>(1,268,196)</u>	<u>(31,687)</u>	<u>(9,452,875)</u>	<u>159,017</u>	<u>(10,593,741)</u>
Other financing sources (uses):					
Bond proceeds	-	-	1,811,163	-	1,811,163
Gain (loss) on disposal of assets	302,255	-	-	-	302,255
Operating transfers in	200,528	37,217	-	1,139,239	1,376,984
Operating transfers out	(37,217)	-	(7,820)	(1,331,947)	(1,376,984)
<u>Total other financing sources (uses)</u>	<u>465,566</u>	<u>37,217</u>	<u>1,803,343</u>	<u>(192,708)</u>	<u>2,113,418</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	<u>(802,630)</u>	<u>5,530</u>	<u>(7,649,532)</u>	<u>(33,691)</u>	<u>(8,480,323)</u>
Fund balance - July 1, 2012 - restated	<u>1,787,649</u>	<u>-</u>	<u>9,354,437</u>	<u>33,691</u>	<u>11,175,777</u>
Fund balance - June 30, 2013	<u>985,019</u>	<u>5,530</u>	<u>1,704,905</u>	<u>-</u>	<u>2,695,454</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2013

Net change in total fund balances per fund financial statements.	(8,480,323)
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Amounts reported for governmental activities in the statement of activities differences:

Capital outlays are reported as expenditures in the fund financial statements because they use current financial resources, but are presented as assets in the statement of activities and depreciated over their estimated useful economic lives. The difference is the amount by which capital outlays exceed depreciation for the year.	8,434,702
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Bond proceeds are recognized as receipts from other financing sources in the fund financial statements but are increases in debt in the government wide financial statements.	(1,811,163)
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Bond principal payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net position.	<u>1,220,884</u>
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Change in net position of governmental activities	<u><u>(635,900)</u></u>
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See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSITION – PROPRIETARY FUNDSAt June 30, 2013

	<u>Food Service Fund</u>
Assets:	
- Current Assets -	
Cash and cash equivalents	65,438
Accounts receivable:	
Intergovernmental - indirect Federal	3,603
Inventories	<u>29,257</u>
<u>Total current assets</u>	<u>98,298</u>
- Noncurrent Assets -	
Capital assets	2,458,793
Less: accumulated depreciation	<u>(830,904)</u>
<u>Total noncurrent assets</u>	<u>1,627,889</u>
<u>Total assets</u>	<u><u>1,726,187</u></u>
Liabilities:	
- Current Liabilities -	
Accounts payable	<u>1,525</u>
<u>Total current liabilities</u>	<u>1,525</u>
Net position:	
Investments in capital assets	1,627,889
Reserve for inventories	29,257
Restricted - other	<u>67,516</u>
<u>Total net posititon</u>	<u>1,724,662</u>
<u>Total liabilities and net position</u>	<u><u>1,726,187</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION – PROPRIETARY FUNDSFor the Year Ended June 30, 2013

	<u>Food service Fund</u>
Operating revenues:	
Lunchroom sales	183,538
State revenue	9,206
On-behalf contributions:	
Kentucky Department of Education	146,722
Commodities	63,178
Federal revenue	<u>746,612</u>
<u>Total operating revenues</u>	<u>1,149,256</u>
Operating expense:	
Salaries and wages	612,820
Contract services	24,698
Materials and supplies	552,058
Other operating expenses	48,363
Depreciation	<u>70,336</u>
<u>Total operating expenses</u>	<u>1,308,275</u>
<u>Operating income (loss)</u>	<u>(159,019)</u>
Nonoperating Revenue/(Expense):	
Interest income	<u>3,048</u>
<u>Total nonoperating revenue/(expense)</u>	<u>3,048</u>
<u>Net income (loss)</u>	<u>(155,971)</u>
Net position, July 1, 2012	<u>1,880,633</u>
Net position, June 30, 2013	<u><u>1,724,662</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF CASH FLOWS – PROPRIETARY FUNDSFor the Year Ended June 30, 2013

	<u>Food Service Fund</u>
Cash flows from operating activities:	
Cash received from:	
Lunchroom sales	183,538
State revenue	9,206
Federal revenue	745,393
Cash paid to/for:	
Employees	(466,097)
Supplies/Contractual	(563,345)
	<u>(91,305)</u>
<u>Net cash provided (used) by operating activities</u>	<u>(91,305)</u>
Cash flows from capital and related financing activities:	
Changes in capital assets	<u>(38,091)</u>
Cash flows from investing activities:	
Interest income	<u>3,048</u>
Cash flows from financing activities:	<u>-</u>
Net increase (decrease) in cash	(126,348)
Cash, beginning of year	<u>191,786</u>
Cash, end of year	<u>65,438</u>
	65,438
Reconciliation of operating income (loss) to net cash provided (used) by operations:	-
Operating income (loss)	(159,019)
Adjustments to reconcile operating income to cash provided (used) by operating activities:	
Depreciation	70,336
Changes in current assets/liabilities:	
Accounts receivable	(1,219)
Inventories	(2,891)
Accounts payable	1,488
	<u>(91,305)</u>
Net cash provided (used) by operating activities	<u><u>(91,305)</u></u>

Noncash transactions include \$209,900 on-behalf payments recognized for the school food service program.

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF FIDUCIARY NET POSITION – ACTIVITY FUNDSAt June 30, 2013**Assets:**

Cash and cash equivalents	89,156
Accounts receivable	<u>-</u>
<u>Total assets</u>	<u>89,156</u>

Liabilities:

Accounts payable	28,734
Due to individual student activity account funds	<u>60,422</u>
<u>Total liabilities</u>	<u>89,156</u>

Net position:

Permanently restricted for scholarships	<u>-</u>
<u>Total liabilities and net position</u>	<u>89,156</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Leslie County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Leslie County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding sources entities. However, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence, operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Leslie County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment or the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Leslie County School District Finance Corporation – On September 11, 1990, the Leslie County, Kentucky, Board of Education resolved to authorize the establishment of the Leslie County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Leslie County Board of Education also comprise the Corporations’ Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Grant Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Presentation (continued)II. Proprietary Funds (Enterprise Funds)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). No amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is not a major fund.

III. Fiduciary Fund Types (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Basis of Accounting (continued)

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and change in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenues.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.474 per \$100 valuation for real property, \$.474 per \$100 valuation for business personal property and \$.473 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are expensed as incurred.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

Compensated absence liabilities are recorded based on balances for classified and certified employees with twenty-seven or more years of experience at June 30, 2013.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These balances are recorded in the account "accumulated sick leave payable" in the government-wide financial statements. A reserve for accumulated sick leave at June 30, 2013 reflected a balance of \$75,696.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

Supplies and materials are charged to expenditures when purchased.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

GASB 63, implemented for the current fiscal year, has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "investment in capital assets", consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through the enabling legislation adopted by the District or through external restrictions imposed by the creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Interfund Activity (continued)

transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the bank balance of the District's cash and cash equivalents was \$3,313,297. Of the total cash balance, \$250,000 was covered by Federal depository insurance and the balance was covered by a collateral agreement and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

The US Bank Construction Fund accounts were established to disburse construction expenditures related to District construction. The funds were held in First American government obligation funds. At June 30, 2013, the funds were insured or guaranteed by the Federal Deposit Insurance Corporation.

Cash and cash equivalents at June 30, 2013 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Hyden Citizens Bank:		
General Operating Account	3,220,284	2,414,364
Hayes Lewis Elementary	23,527	23,097
Mountain View Elementary	(7)	-
Leslie County High School	24,006	23,533
Leslie County Middle School	642	642
Stinnett Elementary	35,956	33,759
WB Muncy Elementary	8,705	8,125
US Bank:		
Construction Account	184	184
Cash registers - lunchrooms	-	309
<u>Total</u>	<u>3,313,297</u>	<u>2,504,013</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE C – CASH AND CASH EQUIVALENTS (continued)

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the District may not recover collateral securities. The District requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not retain any long-term investments. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the organization's cash is held at a local financial institution except for funds held at U.S. Bank from debt service proceeds for District construction and renovation projects. Some of the primary risks associated with these funds: a major change in interest rates; a default on a security or repurchase agreement held by the fund; proceeds from sales of collateral are less than the agreed-upon purchase price. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The District does not hold any foreign investments.

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the School District Finance Corporation.

The original amount of each issue, the issue date and interest rates are summarized as follows:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
Revenue Series, September 1996	\$ 240,000	5.00% - 5.375%
KISTA Series 2004	837,401	1.00% - 3.50%
KISTA Series 2005	233,280	3.00% - 3.625%
Revenue Series, September 2006	1,520,000	3.75% - 4.00%
Revenue Series, July 2007	8,500,000	3.70% - 4.125%
KISTA Series 2008	236,521	3.00% - 3.750%
Revenue Series, August 2009	1,200,000	1.70 % - 4.20%
KISTA Refunding Series 2009R	283,755	1.00% - 3.30%
Revenue Series, July 2011	2,425,000	1.00% - 4.25%
Revenue Series, December 2011	7,515,000	2.00% - 3.375%
QSCB Series, December 2011	4,036,000	5.00% - 5.00%
KISTA Series 2012	345,780	2.00% - 2.625%
Revenue Series 2012B	1,840,593	0.55% - 2.35%

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund and Building Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Leslie County Fiscal Court and the School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1990, the District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

Series 2012B School Building Revenue Bonds dated December 1, 2012, having a par amount of \$1,830,000, were sold by the Leslie County School District Finance Corporation to assist in financing classroom additions and renovations at Stinnett and Mountain View Elementary Schools. Total bond closing costs were \$26,500. The School Facilities Construction Commission portion of the debt principal is \$252,872.

Debt issue costs are recognized as expenditures when incurred in governmental funds but are deferred and amortized over the term of the debt issue for government-wide and proprietary fund types financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations for the district, including amounts to be paid by the Commission, at June 30, 2013, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Leslie County School District</u>		<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2013 - 14	780,047	455,045	391,993	270,493	1,897,578
2014 - 15	708,484	437,194	406,989	255,597	1,808,264
2015 - 16	704,442	420,722	422,698	239,976	1,787,838
2016 - 17	716,710	404,500	433,889	223,793	1,778,892
2017 - 18	732,371	387,249	437,948	207,254	1,764,822
2018 - 19	729,011	369,492	455,325	190,190	1,744,018
2019 - 20	748,600	350,298	468,617	172,362	1,739,877
2020 - 21	755,654	331,055	460,309	154,203	1,701,221
2021 - 22	777,385	310,487	479,509	135,675	1,703,056
2022 - 23	766,142	288,920	498,858	116,351	1,670,271
2023 - 24	790,923	266,882	519,077	96,225	1,673,107

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

Year	Leslie County School District		Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Principal	Interest	
2024 - 25	814,588	243,156	540,412	75,049	1,673,205
2025 - 26	838,023	217,963	561,977	52,738	1,670,701
2026 - 27	863,904	190,536	561,096	29,907	1,645,443
2027 - 28	896,696	161,205	373,304	10,881	1,442,086
2028 - 29	924,338	133,502	30,662	2,745	1,091,247
2029 - 30	956,823	101,174	28,177	1,726	1,087,900
2030 - 31	990,055	67,072	14,945	1,035	1,073,107
2031 - 32	979,638	26,465	15,362	618	1,022,083
2032 - 33	276,441	4,149	13,559	205	294,354
<u>Totals</u>	<u>15,750,275</u>	<u>5,167,066</u>	<u>7,114,706</u>	<u>2,237,023</u>	<u>30,269,070</u>

Leslie County School District Finance Corporation issued Qualified School Construction Bonds, taxable series dated December 1, 2011 having a par amount of \$4,036,000. Of this amount \$3,985,909 of the proceeds were deposited directly to the construction fund for assistance in new building facilities and renovation for an elementary school. Total bond issue costs were \$10,700. The bond was issued at a discount of \$39,391.

	QSCB Series 2011 Escrow Payment Board		Expected Escrow Earnings	QSCB Series 2011 Interest	
	Board	KSFCC		Total	Tax Credit
2013	128,595	41,484	4,077	201,800	(201,800)
2014	127,675	42,404	8,254	201,800	(201,800)
2015	127,776	42,303	12,564	201,800	(201,800)
2016	127,863	42,216	16,995	201,800	(201,800)
2017	127,909	42,170	21,452	201,800	(201,800)
2018	127,950	42,129	26,203	201,800	(201,800)
2019	128,013	42,066	30,690	201,800	(201,800)
2020	128,101	41,978	35,504	201,800	(201,800)
2021	131,456	38,623	40,546	201,800	(201,800)
2022	131,455	38,624	45,610	201,800	(201,800)
2023	131,455	38,624	50,796	201,800	(201,800)
2024	131,456	38,623	56,263	201,800	(201,800)
2025	131,456	38,623	61,376	201,800	(201,800)
2026	131,456	38,623	67,123	201,800	(201,800)
2027	131,456	38,623	72,816	201,800	(201,800)

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

	QSCB Series 2011 Escrow Payment		Expected Escrow Earnings	QSCB Series 2011 Interest	
	<u>Board</u>	<u>KSFCC</u>		<u>Total</u>	<u>Tax Credit</u>
2028	131,456	38,623	78,655	201,800	(201,800)
2029	131,456	38,623	85,109	201,800	(201,800)
2030	128,392	41,687	90,507	201,800	(201,800)
2031	<u>128,654</u>	<u>41,424</u>	<u>-</u>	<u>(100,900)</u>	<u>(100,900)</u>
	<u>2,464,030</u>	<u>767,470</u>	<u>804,540</u>	<u>3,531,500</u>	<u>(3,733,300)</u>

Principal payment due 12/1/2030	<u>4,036,000</u>
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\$100,900 semi-annual interest payments are due every June and December through December 1, 2030. A federal tax credit for the same amount has been granted for each bondholder resulting in a subsidy/federal on-behalf payment for the School District. The action is a result of creation of qualified school construction bonds under the American Recovery and Reinvestment Act. The Act allows deferral of principal payments for up to 17 years and the creation of an escrow account as noted above. The bonds provide federal tax credits for bondholders in lieu of interest in order to significantly reduce the issuer's cost of borrowing. The A-133 Compliance Supplement acknowledges Qualified School Construction Bonds passed through the U.S. Department of Education are not covered by the single audit requirements and are not required to be included in the Schedule of Federal Awards.

Following are changes in long-term debt:

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2013</u>	Current <u>Principal</u>
Revenue Series Sept 1996	85,000	-	15,000	70,000	15,000
KISTA Series 2004	154,025	-	75,773	78,252	78,252
KISTA Series 2005	69,113	-	25,205	43,908	21,586
Revenue Series Sept 2006	1,240,000	-	65,000	1,175,000	65,000
Revenue Series July 2007	7,465,000	-	345,000	7,120,000	360,000
KISTA Series 2008	142,512	-	23,166	119,346	23,890
Bonds Series 2009	1,145,000	-	45,000	1,100,000	50,000
KISTA Refunding Series 2009R	199,356	-	24,053	175,303	24,375
Revenue Series June 2011	2,370,000	-	75,000	2,295,000	75,000
Revenue Series December 2011	7,515,000	-	300,000	7,215,000	305,000
QSCB Series December 2011	4,036,000	-	170,079	3,865,921	170,079
KISTA Series 2012	345,780	-	37,608	308,172	38,937
Revenue Series June 2011	1,355,000	-	20,000	1,335,000	55,000
Revenue Bonds December 2012	-	1,830,000	-	1,830,000	60,000
<u>Total</u>	<u>26,121,786</u>	<u>1,830,000</u>	<u>1,220,884</u>	<u>26,730,902</u>	<u>1,342,119</u>

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2013

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2013</u>
<u>Governmental Activities</u>				
Land	654,157	-	6,400	647,757
Land improvements	309,922	-	9,011	300,911
Buildings and improvements	28,155,173	1,955,986	-	30,111,159
Technology equipment	260,496	-	17,368	243,128
Vehicles	3,038,146	-	312,481	2,725,665
General equipment	172,286	-	51,292	120,994
Construction work in progress	6,175,037	6,868,935	-	13,043,972
<u>Totals at historical cost</u>	<u>38,765,217</u>	<u>8,824,921</u>	<u>396,552</u>	<u>47,193,586</u>
Less: accumulated depreciation				
Land and improvements	290,051	-	4,647	285,404
Buildings and improvements	8,637,297	428,833	310,216	8,755,914
Technology equipment	130,324	31,258	-	161,582
Vehicles	2,408,869	316,796	471,406	2,254,259
General equipment	151,974	44,781	89,562	107,193
<u>Total accumulated depreciation</u>	<u>11,618,515</u>	<u>821,668</u>	<u>875,831</u>	<u>11,564,352</u>
Governmental Activities <u>Capital Assets - Net</u>	<u>27,146,702</u>	<u>8,003,253</u>	<u>479,279</u>	<u>35,629,234</u>
<u>Business-Type Activities</u>				
Buildings and improvements	2,010,854	-	14,278	1,996,576
Food service and equipment	431,150	38,091	7,024	462,217
<u>Totals at historical cost</u>	<u>2,442,004</u>	<u>38,091</u>	<u>21,302</u>	<u>2,458,793</u>
Less: accumulated depreciation				
Buildings and improvements	583,952	25,653	-	609,605
Food service and equipment	197,918	44,683	21,302	221,299
<u>Total accumulated depreciation</u>	<u>781,870</u>	<u>70,336</u>	<u>21,302</u>	<u>830,904</u>
Business-Type Activities <u>Capital Assets - Net</u>	<u>1,660,134</u>	<u>(32,245)</u>	<u>-</u>	<u>1,627,889</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE E – CAPITAL ASSETS (continued)

Depreciation expense was allocated to governmental and proprietary functions as follows:

Governmental functions:

Instructional	5,135
Student support services	116
District administration	1,996
Business support services	8,226
Plant operations and maintenance	648,322
Student transportation	<u>157,873</u>

Total depreciation expense - Governmental functions	<u><u>821,668</u></u>
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Proprietary functions:

Food service operations	<u><u>70,336</u></u>
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NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2013, as follows:

Year ending June 30:

2014	67,516
2015	43,958
2016	3,597
2017	1,365
2018	<u>1,024</u>

<u>Total</u>	<u><u>117,460</u></u>
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NOTE G – RETIREMENT PLANS

Kentucky Teachers Retirement System:

Pension Plan

Plan Description – The Leslie County Public Schools contribute to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013**NOTE G – RETIREMENT PLANS (continued)**

educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions of 14.105%.

Medical Insurance Plan

Plan Description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical insurance benefits is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding Policy – In order to fund the post-retirement healthcare benefit, three and one-half percent (3.5%) of the gross annual payroll of members before July 1, 2008 is contributed. One and three-quarter percent (1.75%) is paid by member contributions and three-quarters .75% from state appropriation and one percent (1%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Leslie County Public School District's total payroll for the year was \$11,433,001. The payroll for employees covered under KTRS was \$9,036,288. For the year ended

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE G – RETIREMENT PLANS (continued)

June 30, 2013, the Commonwealth contributed \$968,837 to KTRS for the benefit of the participating employees. The School District's contributions to KTRS for the year ending June 30, 2013 were \$238,505, which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 5.00% except for new hires on or after September 1, 2008 with payroll withholding of 6.00%, and a district contribution of 19.55% of the employee's total compensation subject to contributions. Total payroll for employee's covered under CERS was \$2,242,695.

The contribution requirement for CERS for the year ended June 30, 2013 was \$550,295 which consisted of \$433,469 from the District and \$116,826 from the employees.

Following is a summary of contributions paid on-behalf of the employees for the past three years:

<u>Year Ended</u> <u>June 30,</u>	<u>KTRS</u>		<u>CERS</u>
	<u>District</u>	<u>State</u>	
2013	238,505	968,837	433,469
2012	227,806	997,094	473,931
2011	214,765	994,730	418,927

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	<u>KTRS</u> <u>as of June 30, 2012</u> (in millions of dollars)	<u>CERS</u> <u>as of June 30, 2012</u> (in millions of dollars)
Actuarial accrued liabilities	26,973.9	12,149.6
Actuarial value of assets	<u>14,691.0</u>	<u>7,294.6</u>
Unfunded (overfunded) actuarial accrued liabilities	<u>12,282.9</u>	<u>4,855.0</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE G – RETIREMENT PLANS (continued)

Historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2012 comprehensive annual financial reports.

As the Board is only one of several employers participating in the plan, it is not practical to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the plan assets.

NOTE H – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The District was notified Kentucky School Board Insurance Trust dissolved during the current fiscal year. As a result, penalty payments have been proposed to be passed to local participating Districts based on past premiums or past claims. Management estimates a liability of under \$270,000 at report date. Management is unsure if bonding will be an option for the District or if the Kentucky Department of Education will allow the District's capital outlay allotment to fund any balances due. Because the payment amount and funding resources are uncertain, management has elected to disclose the amount as a footnote disclosure only.

NOTE I – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE J – LITIGATION

The District is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate a material effect on the combined financial statements as a result of threatened, pending or ongoing litigation.

NOTE K – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE K – RISK MANAGEMENT (Continued)

Insurance for worker's compensation, errors and omissions, educator's legal liability, property (including vehicles) and general liability is carried through various agencies. Contributions to Workers' Compensation Insurance are based on premium rates established with the excess insurance carrier, subject to claims, experience modifications and a group discount amount.

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L – DEFICIT OPERATING/FUND BALANCES

The following funds had deficit balances at June 30, 2013:

Mountain View Elementary Activity Fund	15,902
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The following funds had expenditures in excess of revenues at June 30, 2013:

Mountain View Elementary Activity Fund	21,248
Leslie County Middle School Activity Fund	1,788
Leslie County High School Activity Fund	4,268
WB Muncy Activity Fund	9,461
SEEK Capital Outlay Fund	730
General Fund	1,268,196

NOTE M – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school District at risk for a substantial loss (contingency).

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Capital Outlay Fund	General Fund	Operating expenditures	191,055
Construction Fund	General Fund	Operating expenditures	7,820
Building Fund	General Fund	Operating expenditures	1,653
General Fund	Special Revenue Fund	Technology match	37,217
Building Fund	Debt Service Fund	Debt service	<u>1,139,239</u>
			<u>1,376,984</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2013NOTE O – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2013 were as follows:

None

NOTE P – ANNUAL FINANCIAL REPORT DIFFERENCES

The following is a reconciliation of the June 30, 2013, fund balances/retained earnings reported by the Board to the Kentucky Department of Education with that shown in the accompanying fund financial statements:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Construction Fund</u>	<u>Other Capital Project Funds</u>	<u>Proprietary Funds</u>
Fund Balance/Net Position as reported to the Department of Education	961,195	(4,074)	1,711,622	-	90,304
Adjustment to Fund Balance/Net Position					
(1) To reclassify and adjust cash	10,990	18,838	-	-	-
(2) To adjust for investments	-	-	18,290	-	-
(3) To adjust accounts receivable	10,246	302,443	-	-	3,579
(4) To adjust accounts payable	2,588	(35,453)	(25,007)	-	-
(5) To adjust deferred revenue	-	(276,224)	-	-	-
(6) To adjust inventory	-	-	-	-	2,890
(7) To record net fixed assets	-	-	-	-	1,627,889
Fund Balance/Net Position per fund financial statements at June 30, 2013	<u>985,019</u>	<u>5,530</u>	<u>1,704,905</u>	<u>-</u>	<u>1,724,662</u>

NOTE Q – ON-BEHALF PAYMENTS

Kentucky Teacher's Retirement System	964,136
Health Insurance	1,982,445
Life Insurance	4,756
Administrative Fees	23,086
Health Reimbursement Account	94,850
Less: Federal Reimbursement	(111,550)
Technology	<u>61,490</u>
<u>Sub-Total</u>	3,019,213
Allocated to Food Service Fund	<u>(146,722)</u>
Allocated to General Fund	<u>2,872,491</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)At June 30, 2013NOTE R – NEW ACCOUNTING STANDARD IMPLEMENTATION

The District implemented Governmental Accounting Standards Board No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective for the fiscal year ended June 30, 2011. This standard clarifies existing governmental fund type definitions and establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Classifications will include *nonspendable*, examples being prepaid items and inventory, and the following spendable fund balances – *restricted* – fund balances that are constrained by external parties, constitutional provisions or enabling legislation, *committed* – fund balances that contain self-imposed constraints of the government from its highest level of decision making authority, *assigned* – fund balances that contain self-imposed constraints of the government to be used for a particular purpose and *unassigned* – fund balance of the general fund that is not constrained for any particular purpose. The standard affects fund balance reporting only and not affect government-wide or proprietary fund financial statements.

The following schedule reflects governmental fund balances at June 30, 2013:

Fund Balances	General Fund	Other Funds	Total
Restricted - sick leave	75,696	-	75,696
Restricted - other	-	1,710,435	1,710,435
Assigned fund balance	6,917	-	6,917
Unassigned fund balance	902,406	-	902,406
<u>Total fund balances</u>	<u>985,019</u>	<u>1,710,435</u>	<u>2,695,454</u>

The District's budget by State law must have a minimum 2% contingency. However, a separate contingency reserve fund has not been established. The Statement of Net Position reflects reserves for fixed assets and school food service inventory.

NOTE S – BEGINNING FUND BALANCE/NET POSITION RESTATED

Beginning fund balance, was decreased \$38,038 to reflect a reclassification for fund balance – sick leave.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)At June 30, 2013NOTE T – RECENT GASB PRONOUNCEMENTS

The following pronouncements were effective or available to be implemented for the fiscal year ended June 30, 2013. GASB 60, Accounting and Financial Reporting For Service Concession Arrangements, was implemented but did not have an effect on the financial statements of the District. GASB Statement No. 61, The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34 modifies certain requirements for inclusion of component units in the financial reporting entity. The implementation did not have an effect on the financial statements of the District. GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements, codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to derive from a single source and did not have an effect on the financial statements of the District. GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, provides financial accounting and reporting guidance for deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The implementation changed the District's statements to incorporate the concept of net position, however, the District elected not to early implement GASB Statement 65 which establishes accounting and financial reporting standards that reclassify certain assets and liabilities as deferred outflows of resources or deferred inflows of resources, provides changes in the determination of the major fund calculations and limiting the use of "deferred" in financial statement presentations.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
Revenues:	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
From local sources:				
Taxes	2,989,634	3,323,824	3,206,599	(117,225)
Earnings on investments	30,000	30,000	38,059	8,059
Other local revenue	9,696	15,196	14,000	(1,196)
Intergovernmental - state	7,412,796	7,245,259	10,121,013	2,875,754
Intergovernmental - indirect federal	15,000	15,000	26,185	11,185
<u>Total revenues</u>	<u>10,457,126</u>	<u>10,629,279</u>	<u>13,405,856</u>	<u>2,776,577</u>
Expenditures:				
Instructional	5,039,029	5,598,800	7,454,981	(1,856,181)
Student support services	622,334	627,834	830,136	(202,302)
Staff support services	834,721	622,977	625,525	(2,548)
District administration	469,061	469,061	511,532	(42,471)
School administration	824,388	827,681	1,053,397	(225,716)
Business support	333,154	333,154	424,887	(91,733)
Plant operations and maintenance	1,572,184	1,469,827	2,021,496	(551,669)
Student transportation	1,597,394	1,460,394	1,533,926	(73,532)
Community service activities	5,000	5,000	779	4,221
Employee benefits	-	36,166	37,783	(1,617)
Debt service:				
Principal	-	182,467	161,752	20,715
Interest	-	-	17,858	(17,858)
Contingency	309,854	673,493	-	673,493
<u>Total expenditures</u>	<u>11,607,119</u>	<u>12,306,854</u>	<u>14,674,052</u>	<u>(2,367,198)</u>
Excess (deficit) of revenues over expenditures	<u>(1,149,993)</u>	<u>(1,677,575)</u>	<u>(1,268,196)</u>	<u>409,379</u>
Other financing sources (uses):				
Operating transfers in	-	-	200,528	200,528
Operating transfers out	(61,166)	(25,000)	(37,217)	(12,217)
Gain (loss) on sale of assets	2,575	2,575	302,255	299,680
<u>Total other financing sources (uses)</u>	<u>(58,591)</u>	<u>(22,425)</u>	<u>465,566</u>	<u>487,991</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	<u>(1,208,584)</u>	<u>(1,700,000)</u>	<u>(802,630)</u>	<u>897,370</u>
Fund balance - July 1, 2012 - restated	<u>1,208,584</u>	<u>1,700,000</u>	<u>1,711,952</u>	<u>11,952</u>
Fund balance - June 30, 2013	<u>-</u>	<u>-</u>	<u>909,322</u>	<u>909,322</u>

Note:

State on-behalf revenues and expenditures, \$2,872,491 reflected in actual, are not budget line items.
Actual fund balance at July 1, 2012 excludes \$75,696 committed for sick leave.

See notes to financial statements and Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>			Variance Favorable (Unfavorable)
Revenues:	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues from local sources	-	-	500	500
Intergovernmental - state	708,955	841,211	692,119	(149,092)
Intergovernmental - indirect federal	1,982,141	2,473,480	2,772,435	298,955
<u>Total revenues</u>	<u>2,691,096</u>	<u>3,314,691</u>	<u>3,465,054</u>	<u>(150,363)</u>
Expenditures:				
Instructional	1,767,842	2,632,586	2,669,749	(37,163)
Student support services	219,643	69,407	187,811	(118,404)
Staff support services	302,598	222,598	311,643	(89,045)
Business support services	50,000	50,000	34,011	15,989
Plant operations and maintenance	14,496	13,621	19,050	(5,429)
Student transportation	126,926	147,437	64,391	83,046
Community service activities	234,591	203,227	210,086	(6,859)
<u>Total expenditures</u>	<u>2,716,096</u>	<u>3,338,876</u>	<u>3,496,741</u>	<u>(157,865)</u>
Excess (deficit) of revenues over expenditures	<u>(25,000)</u>	<u>(24,185)</u>	<u>(31,687)</u>	<u>(7,502)</u>
Other financing sources (uses):				
Operating transfers in	25,000	25,000	37,217	12,217
Operating transfers out	-	-	-	-
<u>Total other financing sources (uses)</u>	<u>25,000</u>	<u>25,000</u>	<u>37,217</u>	<u>12,217</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	-	815	5,530	4,715
Fund balance - July 1, 2012	<u>-</u>	<u>570,628</u>	<u>-</u>	<u>(570,628)</u>
Fund balance - June 30, 2013	<u>-</u>	<u>571,443</u>	<u>5,530</u>	<u>(565,913)</u>

See notes to financial statements and Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTCOMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDSFor the Year Ended June 30, 2013

	<u>SEEK Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Funds</u>	<u>Total</u>
Asset and resources:				
Cash and cash equivalents	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Liabilities and fund balances:				
Cash deficit	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
- Fund balances -				
Unassigned fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Restricted for SFCC	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDSFor the Year Ended June 30, 2013

	SEEK Capital Outlay Fund	Building Fund	Debt Service Funds	Total
Revenues:				
From local sources:				
General real property tax	-	698,160	-	698,160
Intergovernmental - State	<u>157,364</u>	<u>442,732</u>	<u>691,127</u>	<u>1,291,223</u>
<u>Total revenues</u>	<u>157,364</u>	<u>1,140,892</u>	<u>691,127</u>	<u>1,989,383</u>
Expenditures:				
Bond principal & escrow	-	-	1,059,132	1,059,132
Bond interest	<u>-</u>	<u>-</u>	<u>771,234</u>	<u>771,234</u>
<u>Total expenditures</u>	<u>-</u>	<u>-</u>	<u>1,830,366</u>	<u>1,830,366</u>
Excess (deficit) of revenues over expenditures	<u>157,364</u>	<u>1,140,892</u>	<u>(1,139,239)</u>	<u>159,017</u>
Other financing sources (uses):				
Operating transfers in	-	-	1,139,239	1,139,239
Operating transfers out	<u>(191,055)</u>	<u>(1,140,892)</u>	<u>-</u>	<u>(1,331,947)</u>
<u>Total other financing sources (uses)</u>	<u>(191,055)</u>	<u>(1,140,892)</u>	<u>1,139,239</u>	<u>(192,708)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(33,691)</u>	<u>-</u>	<u>-</u>	<u>(33,691)</u>
Fund balance, July 1, 2012	<u>33,691</u>	<u>-</u>	<u>-</u>	<u>33,691</u>
Fund balance, June 30, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCELESLIE COUNTY HIGH SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2013

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess (Deficit) of Revenues over Expenditures</u>	<u>Fund Balance July 1, 2012</u>	<u>Fund Balance June 30, 2013</u>
General Fund	10,694	11,220	(526)	2,814	2,288
Textbook	277	-	277	1,012	1,289
Teacher Vending	2,429	3,178	(749)	802	53
National Honor Society	310	-	310	-	310
Drama Club	1,520	1,608	(88)	145	57
Student Body Government	116	275	(159)	187	28
Extracurricular	59,438	61,163	(1,725)	1,863	138
Emergency Extracur	500	-	500	-	500
Academics	2,582	2,523	59	-	59
Band	5,880	7,004	(1,124)	1,380	256
Baseball	7,493	9,828	(2,335)	3,295	960
Boys Basketball	13,715	13,715	-	-	-
Football	-	391	(391)	391	-
FB Cheerleaders	7,917	8,602	(685)	685	-
Girls Basketball	11,066	11,494	(428)	428	-
Softball	8,045	7,211	834	-	834
Track	8,128	7,275	853	216	1,069
Volleyball	6,119	7,154	(1,035)	4,391	3,356
Cross Country	2,873	1,882	991	-	991
Senior Class	22,392	22,233	159	-	159
Juniors	5,361	6,940	(1,579)	1,581	2
Journalism	8,656	7,261	1,395	253	1,648
Project Sober	6,053	3,875	2,178	160	2,338
Field House	-	1,000	(1,000)	1,000	-
<u>Sub-total</u>	<u>191,564</u>	<u>195,832</u>	<u>(4,268)</u>	<u>20,603</u>	<u>16,335</u>
Less: Interfund transfers	<u>16,609</u>	<u>16,609</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total</u>	<u>174,955</u>	<u>179,223</u>	<u>(4,268)</u>	<u>20,603</u>	<u>16,335</u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE

OTHER SCHOOL ACTIVITY FUNDS

For the Year Ended June 30, 2013

	Hayes Lewis Elementary	Mountain View Elementary	Leslie County Middle	Stinnett Elementary	W.B. Muncy Elementary	Total (Memorandum Only)
<u>REVENUES:</u>						
Activity funds	44,186	29,324	13,398	60,328	32,382	179,618
<u>EXPENDITURES:</u>						
Activity funds	<u>36,175</u>	<u>50,572</u>	<u>15,186</u>	<u>58,115</u>	<u>41,843</u>	<u>201,891</u>
Excess or (deficiency) of revenues over <u>expenditures</u>	8,011	(21,248)	(1,788)	2,213	(9,461)	(22,273)
Fund Balance, July 1, 2012	<u>15,086</u>	<u>5,346</u>	<u>2,430</u>	<u>26,633</u>	<u>17,459</u>	<u>66,954</u>
Fund (Deficit) Balance, June 30, 2013	<u><u>23,097</u></u>	<u><u>(15,902)</u></u>	<u><u>642</u></u>	<u><u>28,846</u></u>	<u><u>7,998</u></u>	<u><u>44,681</u></u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
<u>U. S. Department of Agriculture</u>				
Passed through State Department of Education:				
- Child Nutrition Cluster -				
School Breakfast Program	10.553	776005	N/A	<u>258,085</u>
School Lunch Program	10.555	775002	N/A	<u>540,527</u>
Summer Food Service Program for Children	10.559	7690024	N/A	306
	10.559	7740023	N/A	2,950
				<u>3,256</u>
Total Child Nutrition Cluster				<u>801,868</u>
Passed through Leslie County Fiscal Court				
Schools and Roads Grant to States	10.665	N/A	N/A	<u>43,649</u>
<u>Total U.S. Department of Agriculture</u>				<u>845,517</u>
<u>Appalachian Regional Commission</u>				
Direct				
Appalachian Higher Education Network (KY AHED)	23.011	6882	5,000	2,006
	23.011	6882	5,000	<u>2,751</u>
Total Appalachian Regional Commission				<u>4,757</u>
<u>U. S. Department of Education</u>				
Passed through State Department of Education:				
- Title I Cluster				
Title 1	84.010	3102D	124,400	32,750
	84.010	3102M	10,500	10,500
	84.010	3103	958,095	855,963
	84.010	3103M	9,700	<u>554</u>
<u>Total Title I Cluster</u>				<u>899,767</u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
ERL Principal or Mentor Cohort				<u>10,074</u>
-Special Education Cluster -				
IDEA - B Basic	84.027	3372	450,172	196,960
	84.027	3371	452,300	37,118
	84.027	3373	446,453	131,605
Special Education - Preschool	84.173	3433	20,147	<u>27,211</u>
Total - Special Education Cluster				<u>392,894</u>
Rural/Low Income School Program	84.358	3503	33,456	15,334
	84.358	3502	38,311	<u>32,174</u>
				<u>47,508</u>
Gear Up	84.334A	3792G	89,212	26,137
	84.334A	3793G	148,900	<u>169,765</u>
				<u>195,902</u>
Improving Teacher Quality State Grants	84.367	4012	215,984	187,784
	84.367	4013	221,233	<u>7,536</u>
				<u>195,320</u>
Title IV - Elementary School Counseling Program	84.215E	5322	150,236	179,713
	84.215E	5323	15,236	<u>1,207</u>
				<u>180,920</u>
School Improvement Grant ARRA	84.388A	5600A	498,795	845
	84.388A	5600B	499,874	184,473
	84.388A	5600C	621,495	<u>241,895</u>
				<u>427,213</u>
Education Jobs Fund	84.410	4411	454,960	<u>3,225</u>
- Direct -				
21st Century Learning Centers	84.287A	5501	151,000	10,451
	84.287A	5502	150,000	109,342
	84.287A	5501J	3,000	3,215
	84.287A	5502S	5,000	<u>4,793</u>
				<u>127,801</u>
<u>Total Department of Education</u>				<u>2,480,624</u>
<u>Total Federal Awards Expended</u>				<u>3,330,898</u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2013**NOTE A**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Leslie County School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

NOTE B

Non-monetary assistance is reported in the schedule at the fair value of the food donations disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations.

See Independent Auditor's Report.

Chris Gooch

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

State Committee for School District Audits
Members of Leslie County Board of Education
Hyden, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the appendices to the Independent Auditor's Contract, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Leslie County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Leslie County School District's basic financial statements, and have issued our report thereon dated November 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Leslie County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Leslie County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Leslie County School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness as 2013-1.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies as 2013-2 and 2013-3.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leslie County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Leslie County School District, in a separate letter dated November 13, 2013. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract – State Audit Requirements.

Entity's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 13, 2013

Chris Gooch

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

State Committee for School District Audits
Members of Leslie County Board of Education
Hyden, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Leslie County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Leslie County School District's major federal programs for the year ended June 30, 2013. Leslie County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Leslie County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the appendices to the Independent Auditor's Contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Leslie County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Leslie County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Leslie County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of Leslie County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Leslie County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Leslie County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 13, 2013

LESLIE COUNTY SCHOOL DISTRICTSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGSFor the Year Ended June 30, 2013- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2012-1:**

Condition:	Mountain View Elementary Activity Fund supporting documentation as required by "Accounting Procedures for School Activity Funds" was incomplete or unavailable at time of audit, including fundraising reports, ticket sales reports, vendor invoices, cash receipts and inventory control reports.
Criteria:	District personnel involved in school activity accounting should be knowledgeable as to documentation requirements for applicable transactions regarding its individual funds. Adequate segregation of duties and monitoring of transactions should be maintained so that instances of missing or unavailable documentation may be readily discovered.
Cause:	Transactions were conducted without applicable supporting schedules and other documentation. Monitoring was ineffective.
Effect:	The risk of fraud or misappropriation of activity funds is greater when transactions are not supported by sufficient documentation as required.
Recommendation:	The District should ensure continuing education regarding activity fund accounting procedures for applicable personnel. The District should ensure and document adequate segregation of duties and monitoring for activity fund transactions.
District Response:	The District will provide continuing education. District management will ensure the activity fund has adequate segregation of duties, evidence of monitoring and evidence of supporting documentation for its transactions.

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS -

None

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2013- SUMMARY OF AUDIT RESULTS –

1. We have issued an unmodified opinion on the financial statements.
2. Material weaknesses were disclosed by the audit of the financial statements. Significant deficiencies not identified as material weaknesses were disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit in internal control over major programs.
5. We have issued an unmodified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under Section .510(a) of A-133.
7. Leslie County School District had the following major programs:
 - U. S. Department of Education
 - Passed through State Department of Education - Title I
CFDA number 84.010
 - Special Education Cluster - IDEA-B Basic
CFDA numbers 84.027
 - IDEA-B Preschool
CFDA number 84.173
 - Education Jobs Fund -
CFDA number 84.410
 - School Improvement Grant -
CFDA number 84.388
 - U.S. Department of Agriculture
 - Passed through State Departments of Education and Agriculture -
 - Child Nutrition Cluster -
School Lunch and Breakfast Program, Summer Food Service Program for Children
CFDA numbers 10.553, 10.555 and 10.559
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee did not qualify as a low-risk auditee.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)For the Year Ended June 30, 2013- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2013-1:**

- Condition: Mountain View Elementary Activity Fund supporting documentation as required by "Accounting Procedures for School Activity Funds" was incomplete or unavailable at time of audit, including fundraising reports, ticket sales reports, vendor invoices, cash receipts and inventory control reports. In addition, bank reconciliations were in error or incomplete. Also, no evidence of bank statement and reconciliation monitoring was noted. As a result, additional tests were conducted on activity fund transactions. We discovered \$7,638.88 in questionable costs without adequate documentation or explanation as to its activity fund purpose. In addition, primarily through inquiries and the use of third party vendor invoices we estimated a revenue shortfall of \$32,530.03 for the activity fund for fiscal year ended June 30, 2013. However, a majority of this estimate was calculated without benefit of ticket sales reports, cash receipts, fundraising reports or inventory control reports.
- Criteria: District personnel involved in school activity accounting should be knowledgeable as to documentation requirements for applicable transactions regarding its individual funds. Adequate segregation of duties and monitoring of transactions should be maintained so that instances of missing funds or unavailable documentation may be readily discovered.
- Cause: Transactions occurred without applicable supporting schedules and other documentation or without adequate authorization and monitoring.
- Effect: Misappropriation of assets and fraud may have occurred.
- Recommendation: The District should ensure continuing education regarding activity fund accounting procedures for applicable personnel. The District should ensure and document adequate segregation of duties and monitoring for activity fund transactions.
- District Response: The District terminated the activity fund clerk at Mountain View Elementary. The principal at Mountain View Elementary was transferred to another position within the District. An indictment was filed in Leslie County Circuit Court October 2, 2013, charging the former activity fund clerk of theft by unlawful taking in the approximate amount of \$4,595. In addition, the former clerk was charged with forgery with the intent to defraud by falsely completing checks forging the name of the former principal. The District will conduct ongoing training for its applicable personnel involved in activity fund accounting and provide monitoring of segregation of duties and supporting documentation for its transactions on a timely basis.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)For the Year Ended June 30, 2013- FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued) -**2013-2:**

- Condition: Significant adjusting entries were made to the financial statements as presented for audit. Those adjusting entries included adjustments for cash, investments, accounts receivable, accounts payable and fixed assets.
- Criteria: District personnel's accounting control procedures should include financial reporting closing procedures validating statement of position account balances.
- Cause: District personnel have not developed criteria for monitoring and reconciling financial reporting end of year account balances.
- Effect: Account balance misstatements may go undetected causing the financial statements to be materially misstated.
- Recommendation: The District should ensure continuing education regarding financial reporting closing and develop procedures enabling effective monitoring of account balances.
- District Response: The District will provide continuing education regarding financial reporting closing and develop procedures enabling effective monitoring of account balances.

2013-3:

- Condition: The following conditions were noted based on the activity fund audit at WB Muncy Elementary:
- a. The annual financial report was not completed.
 - b. No evidence a 2013-14 budget had been prepared.
 - c. No evidence inventory control worksheets were prepared.
- The following conditions were noted based on the activity fund audit at Hayes Lewis Elementary:
- a. Cash receipts could not be agreed to deposits.
 - b. Individual activity fund activity fund ledgers were not presented.
 - c. Some purchases/disbursements indicated fundraising or inventory control forms should be present but none were located.
- Criteria: District personnel involved in school activity accounting should be knowledgeable as to documentation requirements for applicable transactions regarding its individual funds. Adequate segregation of duties and monitoring of transactions should be maintained so that instances of missing or unavailable documentation may be readily discovered.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)For the Year Ended June 30, 2013

- FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued) -

Cause: Transactions were conducted without applicable supporting schedules and other documentation. Monitoring was ineffective.

Effect: The risk of fraud or misappropriation of activity funds is greater when transactions are not supported by sufficient documentation as required.

Recommendation: The District should ensure continuing education regarding activity fund accounting procedures for applicable personnel. The District should ensure and document adequate segregation of duties and monitoring for activity fund transactions.

District Response: The District will provide continuing education. District management will ensure the activity fund has adequate segregation of duties, evidence of monitoring and evidence of supporting documentation for its transactions.

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS –

None

Chris Gooch

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Leslie County Board of Education
Hyden, Kentucky

In planning and performing our audit of the financial statements of Leslie County School District for the year ended June 30, 2013, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated November 13 2013, contains our report on significant deficiencies and material weaknesses in the District's internal control structure. This letter does not affect our report dated November 13, 2013 on the financial statements of the Leslie County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

A handwritten signature in blue ink, appearing to read "Chris Gooch", written in a cursive style.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 13, 2013

LESLIE COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2013**Prior Year Comments**

1. We noted Hayes Lewis Elementary activity fund contractual expenditure for \$1,425 regarding painting of gym floor. Management should have a process documenting its explanation for placing this type expenditure in an activity fund and assuring regulatory reporting is compiled and filed timely, i.e., W-9 and 1099-MISC forms. Management will emphasize to activity fund clerks and principals the importance of informing District finance personnel regarding transactions of this nature.
 - Management has emphasized to personnel at the school level the importance of tracking this type expenditure at the activity fund level.
2. We recommended during our previous audit that purchase orders should provide a reasonable estimate of the amount actually disbursed. It was noted during a general fund test of disbursement transactions related to vehicle fuel, parts and supplies three purchase orders whose amount listed was not comparable to the actual amount paid.
 - We noted no transactions of this nature during our current audit.
3. When performing a walk-through of fixed assets at Mountain View Elementary, we noted several assets on the detail fixed asset listing not observed. We also noted some assets tagged but not listed on the detail. Management should periodically review its detail fixed asset listing and compare to the physical site location. Management should stress to personnel at each location the importance of notifying central office financial management when disposals or transfers of fixed assets occur.
 - The District changed its threshold for determination of a fixed asset beginning January 1, 2011, to \$5,000. Management has implemented monitoring procedure.
4. When examining payroll authorization deductions we noted some employees without authorization deductions on file for one of its insurance providers. Management should periodically monitor its authorization documentation for personnel to ensure information agrees to amounts withheld.
 - For our sample tested during the current year audit, two personnel were noted with incomplete I-9 forms and several deductions in our test sample indicated no authorized documentation on file. Management will continue to monitor periodically for complete personnel authorization information.

LESLIE COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2013**Prior Year Comments (continued)**

5. Management should emphasize the importance of periodically reconciling its payroll reporting forms to annual MUNIS reporting documentation.
 - Management is working on procedures to ensure adequate reconciliation of its payroll reporting forms to general ledger MUNIS detail..

Current Year Comments

1. Management should periodically review its fixed asset listing and denote idle property ensuring depreciation is not occurring.